CIA/OER/IM 71-34 BRAZIL'S EXPORT DRIVE

CONF MARCH 1971 01 OF 01

CIA/OER/IM 71-34

Confidential

Doc/Ser

DIRECTORATE OF
INTELLIGENCE

# Intelligence Memorandum

## *Brazil's Post-Coup Export Drive*



Confidential
ER IM 71-34
March 1971

Copy No.

# WARNING

This document contains information affecting the national defense of the United States, within the meaning of Title 18, sections 793 and 794, of the US Code, as amended. Its transmission or revelation of its contents to or receipt by an unauthorized person is prohibited by law.

GROUP 1
Excluded from automatic
downgrading and
declassification

Approved For Release 2002/03/25 : CIA-RDP85T00875R001600040035-9

CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
March 1971

INTELLIGENCE MEMORANDUM

# Brazil's Post-Coup Export Drive

## Introduction

Since the 1964 military coup, export expansion has been an outstanding feature of the Brazilian government's efforts to revitalize the economy. Misguided policies and deteriorating coffee prices had caused export stagnation for a full decade and had generated a critical foreign exchange shortage despite massive borrowing abroad. Because accelerated economic growth depended heavily on increasing import capacity, the Castello Branco government (1964-67) quickly initiated new export policies. These policies have been maintained and even strengthened, with excellent results, by Presidents Costa e Silva (1967-69) and Garrastazu Medici (inaugurated in October 1969). The weakening world coffee market and the threat of new trade restrictions in the United States and other countries nevertheless raise the question of whether export expansion can continue supporting Brazil's economic growth so strongly. This memorandum reviews the program devised to diversify and otherwise enlarge exports, examines its results thus far, and assesses export prospects over the next few years.

## Pre-Coup Trade Trends

1. Although Brazilian output generally grew rapidly during the pre-coup decade, export performance remained extremely poor and eventually inhibited the advance. From 1954 to 1963, while gross

*Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.*

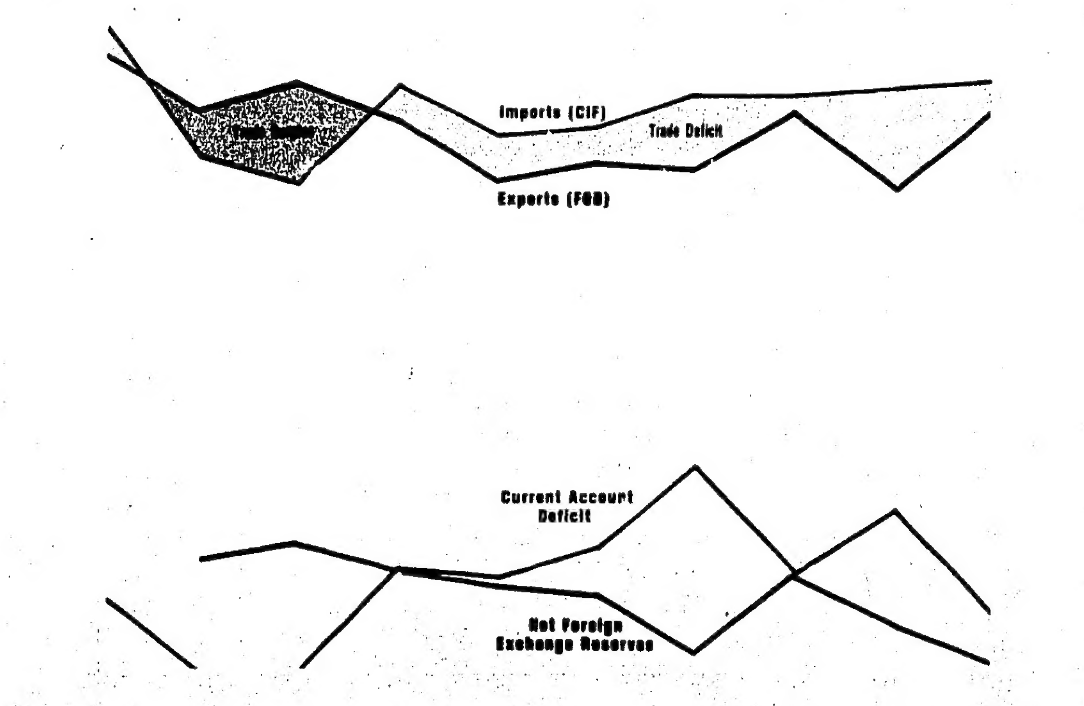
domestic product rose by about 75%, exports fell by 10%, from $1.56 billion to $1.41 billion. Export earnings remained heavily dependent on coffee and other traditional commodities such as cotton, sugar, and cocoa because the Kubitschek, Quadros, and Goulart administrations followed inward-oriented policies that neglected and even penalized sales abroad. Coffee exports held up well through 1956 but then dropped substantially as world market prices slumped. Sales of other major crops also declined. In 1963, traditional agricultural items still provided more than 80% of export earnings -- about the same share as in the mid-1950s -- and coffee alone continued to provide almost 55% of the total.

2. Coffee exports were hurt not only by the sharp price drop that began in the mid-1950s, as world production outran consumption, but also by Brazil's efforts to manipulate world coffee prices. The average realized price of coffee exports fell from 55 cents a pound in 1954 to 29 cents in 1963 -- each one-cent drop typically costing some $20 million in annual export earnings. In an effort to support the world price, Brazil periodically withheld coffee from the market even though its internal price supports were stimulating output. Coffee exports in several years were only 13-14 million bags (of 132 pounds each) compared with a long-term average of about 17 million bags, and the government had to buy and maintain large stocks at considerable cost. In trying to influence world supply and prices, Brazil spurred production in competing countries and caused its market share to drop from about 50% in 1954 to only 40% in 1963.

3. Manufacturing output grew rapidly during the pre-coup decade, rising from 21% to 27% of GDP, but little of the gain was exported. Government policy focused on import substitution and on meeting the growing demand within the relatively large domestic market. The problem was that protecting local manufactures permitted costly, uncompetitive production to develop in various industries, and the persistent and increasing inflation -- coupled with lagging exchange rate devaluations -- created an over-valued currency that made exports unattractive even to efficient plants. While exports of nontraditional agricultural commodities and of minerals more than doubled despite various problems, their combined value was only $146 million (10% of total exports) in 1963.

4. Export difficulties during 1955-63 eventually had serious economic consequences even though output was boosted substantially and industrialization limited demand for imports, which remained below the 1954 level. The current account deficit ranged between $250 million and $520 million throughout most of the period because of continuing trade deficits, large interest payments on foreign debt, and sizable freight and insurance costs (see Figure 1). To cover the imbalance, Brazil incurred $1.4 billion in medium- and long-term debt and reduced net foreign exchange reserves from a high of roughly $325 million to $20 million. During 1960-63, continued sluggish export performance necessitated foreign loans of more than $600 million, caused a huge jump in commercial arrears, and forced several major reschedulings of short-term foreign debt. In addition, the foreign investment

**BRAZIL: BALANCE-OF-PAYMENTS INDICATORS**




CONFIDENTIAL

climate was hurt by restrictions on profit remittances and capital repatriation and by expropriation actions. As political and economic conditions worsened in the early 1960s, the Goulart administration sought popular support by blaming foreign investors and ultimately expropriating several US mining and utility holdings. By early 1964, the import level seemed unsustainable because reserves were almost exhausted, capital inflows had ceased, the debt service burden remained very heavy, and the international financial community considered Brazil a bad credit risk.

Export Promotion Under the Military Governments

5. After Goulart was overthrown in March 1964 -- largely because of the military's concern over growing Communist influence and the economy's condition -- the junta headed by former Marshal Castello Branco quickly set about overhauling economic policy. Castello Branco relied heavily on civilian advisers in deciding what to do. The Minister of Planning, Roberto Campos, an economist who took a traditional approach to solving economic problems, was particularly influential. To curb the then-rampant inflation and restore more satisfactory economic growth rates, Campos advocated financial austerity, more carefully planned public investment, and a stronger role for the private sector than Goulart had envisioned. The new program was designed in various ways to raise exports substantially -- an obvious condition of its success. The measures then adopted generally have been maintained and, in some ways, broadened by the two succeeding administrations.

6. Although favorable world commodity prices played a part, the government's policies have contributed greatly to Brazil's impressive export growth since 1963. Exports were promoted through considerably increased investment in farm-to-market roads, railroads, and port facilities as well as storage capacity. Export potential also was enlarged by scheduling and supporting expansion of certain semi-independent state enterprises, particularly in the iron and steel industry.

7. The government also employed various fiscal, credit, and other indirect measures to stimulate

output and channel more of it into exports. One of the most important steps was establishing a more realistic exchange rate and making it more broadly applicable. A large devaluation in June 1964 improved the exchange rate, but high inflation rates and long intervals between further devaluations continued to hamper exports in the mid-1960s. This handicap was reduced with the introduction in August 1968 of a "crawling peg" exchange rate system, under which small adjustments have been made every few weeks to reflect domestic price changes.* Although these devaluations have not fully offset the rise in internal prices, they have been sufficient to keep Brazil's exports fairly competitive, since prices also have been rising significantly in foreign markets. In 1970, Brazil's devaluations totaled about 14%, compared with an estimated 19% rise in internal prices.

## Growth of Exports

8. Favorable trends in all major export categories during 1964-70 almost doubled Brazil's revenues, which increased from $1.41 billion to an estimated $2.73 billion (see the table and Figure 2). The average annual increase of 10% was the highest in South America, except for Bolivia (which had large gains in tin, antimony, and oil revenues). Brazilian exports in 1970 of $30 per capita were second only to Venezuela's. In total export value, Brazil surpassed Venezuela to become Latin America's leader, whereas its earnings were only half the size of Venezuela's as recently as 1962.

### Manufactures and Minerals

9. The most striking export gain has been in manufactured goods, which earned an estimated $450 million in 1970, compared with $49 million in 1963. Brazil's exports of manufactures are now by far the largest in Latin America, and the per capita value of about $5 is second only to Argentina's $8. The products sold are quite varied. Although processed agricultural and forest products still make up a large share of these exports, significant

---
* *For details, see ER IM 70-171*, Brazil, Chile, And Colombia: Experience With "Crawling Peg" Exchange Rates, *December 1970, CONFIDENTIAL.*

CONFIDENTIAL

Brazil: Value of Exports, by Product Groups

Million US $

| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 Estimated |
|---|---|---|---|---|---|---|---|---|
| Coffee | 748 | 760 | 707 | 764 | 705 | 775 | 813 | 950 |
| Main non-traditional agricultural products | 45 | 41 | 106 | 138 | 92 | 138 | 134 | 222 |
| Corn | 30 | 3 | 28 | 32 | 22 | 57 | 33 | 78 |
| Beef (chilled and frozen) | 5 | 11 | 24 | 20 | 7 | 20 | 43 | 50 |
| Rice | Negl. | Negl. | 24 | 33 | 4 | 21 | 7 | 8 |
| Soybeans and meal | 7 | 3 | 15 | 28 | 40 | 25 | 29 | 69 |
| Wool | 3 | 24 | 15 | 25 | 19 | 15 | 22 | 17 |
| Other agricultural products (mostly traditional exports) | 406 | 375 | 412 | 488 | 453 | 518 | 726 | 685 |
| Cotton (raw) | 114 | 108 | 96 | 111 | 91 | 131 | 195 | 153 |
| Sugar | 63 | 33 | 54 | 81 | 80 | 102 | 115 | 118 |
| Cocoa | 52 | 46 | 41 | 72 | 85 | 73 | 137 | 104 |
| Sisal | 36 | 38 | 25 | 23 | 16 | 17 | 16 | 15 |
| Tobacco | 24 | 28 | 26 | 22 | 20 | 19 | 27 | 29 |
| Castor oil | 18 | 24 | 27 | 22 | 23 | 36 | 45 | 36 |
| Other items | 99 | 98 | 143 | 157 | 138 | 140 | 191 | 230 |



CONFIDENTIAL

Approved For Release 2002/03/25 : CIA-RDP85T00875R001600040035-9

CONFIDENTIAL

Brazil: Value of Exports, by Product Groups
(Continued)

Million US $

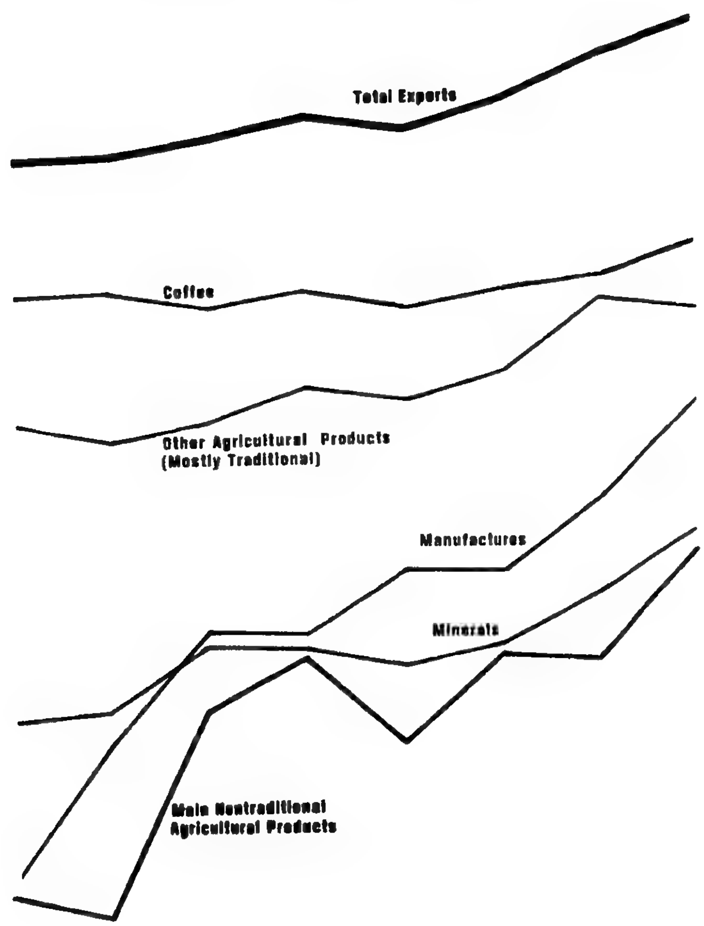
| | 1963 | 1964 | 1965 | 1966 | 1967 | 1968 | 1969 | 1970 Estimated |
|---|---|---|---|---|---|---|---|---|
| Minerals | 101 | 107 | 144 | 143 | 132 | 145 | 183 | 248 |
| Iron ore | 70 | 81 | 103 | 100 | 103 | 105 | 150 | 210 |
| Manganese ore | 25 | 21 | 29 | 27 | 14 | 24 | 17 | 22 |
| Other | 6 | 5 | 12 | 16 | 15 | 16 | 16 | 16 |
| Manufactures | 49 | 91 | 154 | 151 | 203 | 201 | 283 | 450 |
| Other exports a/ | 57 | 56 | 72 | 57 | 69 | 113 | 163 | 175 |
| *Total* | *1,406* | *1,430* | *1,595* | *1,741* | *1,654* | *1,890* | *2,302* | *2,730* |

*a. Including forest products, seafoods, and various unidentified items.*



CONFIDENTIAL

**BRAZIL: VALUE OF EXPORTS**




CONFIDENTIAL




Approved For Release 2002/03/25 : CIA-RDP85T00875R001600040035-9

sales of machinery and equipment, iron and steel products, chemicals, and textiles have been developed, as indicated by the Appendix and the following tabulation:

| Commodity | Million US $ 1968 | 1969 |
|---|---|---|
| Soluble coffee | 23 | 33 |
| Other foodstuffs and beverages | 30 | 36 |
| Wood products | 12 | 23 |
| Chemical products | 26 | 31 |
| Machinery and equipment | 41 | 60 |
| Iron and steel products | 21 | 29 |
| Cotton and jute textiles | 9 | 10 |
| Miscellaneous items | 39 | 61 |
| *Total* | *201* | *283* |

10. The government offered various inducements and aids for such exports. Export earnings from manufactured items were exempted from income taxes, and some state value-added taxes were abolished. Imports needed to produce exports were exempted from import surcharges and the requirement of prior deposit of import payments. In addition, tariff levels were cut substantially to introduce an element of competition and to improve productive efficiency. These tariff cuts also had the aim of encouraging trade concessions from other members of the Latin American Free Trade Association (LAFTA). To provide much-needed export financing, the government established the Special Industrial Financing Agency (FINAME), which is supervised by the National Development Bank. The red tape involved in exporting was sharply reduced by the new National Council of Foreign Trade, which replaced numerous agencies and became the central authority in trade matters. According to some businessmen, this was perhaps the government's most important single move to boost exports.

11. Government investment was particularly important in expanding exports of iron ore and other minerals, which rose by an estimated 146%

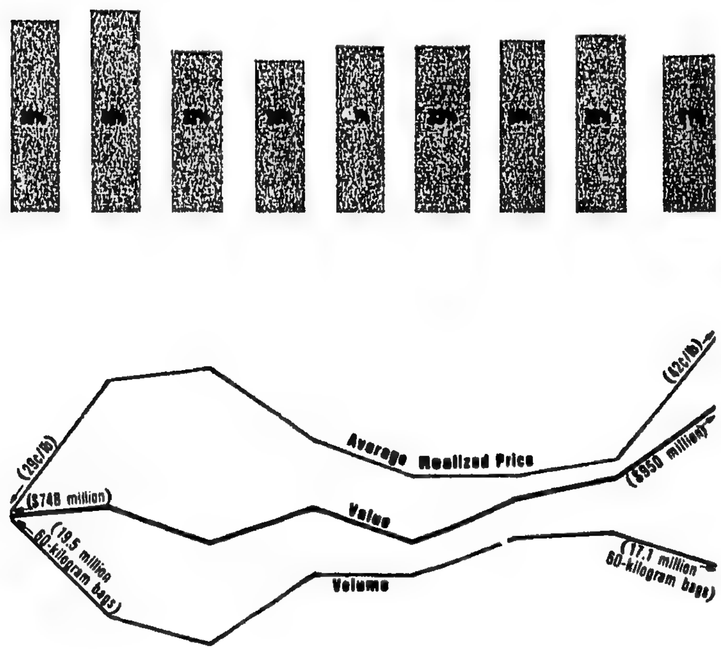
(to $248 million) during 1964-70. Most of the iron ore exported comes from large, rich deposits in the state of Minas Gerais. By far the largest enterprise exploiting these deposits is the Companhia Vale do Rio Doce (CVRD), which is 90% government-owned. As CVRD expanded rail, storage, and port facilities, it was able to raise its iron ore exports from 7 million metric tons in 1964 to an estimated 21½ million in 1970. Now one of the world's largest iron mining operations, CVRD accounts for more than 80% of Brazil's iron ore exports.

Coffee

12. After fluctuating between $705 million and $775 million for several years, coffee earnings grew impressively in 1969-70, making a good export record even better. The estimated 17% increase in 1970 was primarily the result of a sharp price rise set off by a severe frost in Brazil in August 1969. Considerable damage to coffee trees -- and the government's skill in exaggerating the threatened supply shortage -- prompted importers to build up coffee bean inventories in anticipation of higher prices. In the ensuing scramble, which the government helped along by holding deliveries 10% below its international quota despite ample stocks, Brazil's average realized price rose to 42 cents a pound in 1970 compared with 33 cents in 1969. Coffee export earnings accordingly jumped by an estimated $137 million, to $950 million -- the highest level in 14 years (see Figure 3).

13. The effects of Brazilian coffee policy on export earnings in 1964-70 are very difficult to sort out and, in any case, should be judged in conjunction with domestic goals. During the past three years, coffee output has fallen below the basic domestic and export demands of 7-8 million and 17-18 million bags, respectively, and coffee stocks have declined substantially, to perhaps 30 million bags. Production declined partly because about one-fourth of Brazil's 3-3½ billion coffee trees were eradicated to bring supply into better balance with demand. In addition, Brazil was troubled with frost and drought in 1967-69. Although other coffee producers have been eager to make up for any deficiencies in Brazil's exportable supply, the

## BRAZIL: COFFEE EXPORT TRENDS




CONFIDENTIAL

severe 1969 frost gave world prices a strong push, aided by importers' psychological reactions. At the same time, the eradication program and three-year run of poor weather -- together with the recent discovery of rust in some marginal coffee growing areas -- reinforced the government's agricultural diversification program. Furthermore, in channeling a larger share of coffee export proceeds to the Treasury, the government obtained additional resources for export promotion in other fields.

14. As the world's largest coffee exporter, Brazil tried during much of the period to support world prices by holding its deliveries below the International Coffee Agreement (ICA) quotas. Most observers agree that this policy helped to prop up prices during 1964-67 -- perhaps exerting as much stabilizing influence as the ICA mechanisms -- and contributed to the sharp rise in 1970. The cost of the policy was further erosion of Brazil's world market position because it gave competing producers the incentive and opportunity to expand exports. Although export volume has risen since the mid-1960s, Brazil's share of annual world coffee exports has amounted to only 30%-35% since the coup, compared with 40% in 1963.

15. Whether Brazil significantly increased its coffee export earnings by holding back deliveries is arguable. If it had maintained a market share of about 39% by regularly shipping its full ICA quota, Brazil could have duplicated its foreign exchange earnings during 1964-70 at coffee prices averaging one-fifth less than those actually experienced. Even to maintain a 17 million bag export volume in 1970, Brazil had to undercut the high prices that it had been striving for. In October, its coffee sales fell to about one-third of normal because Central American producers cut prices to fill the extra ICA quotas established the previous month at the insistence of major importing countries. By offering special, under-cover rebates to selected customers, Brazil boosted its export volume by more than 2 million bags late in the year.

Other Agricultural Products

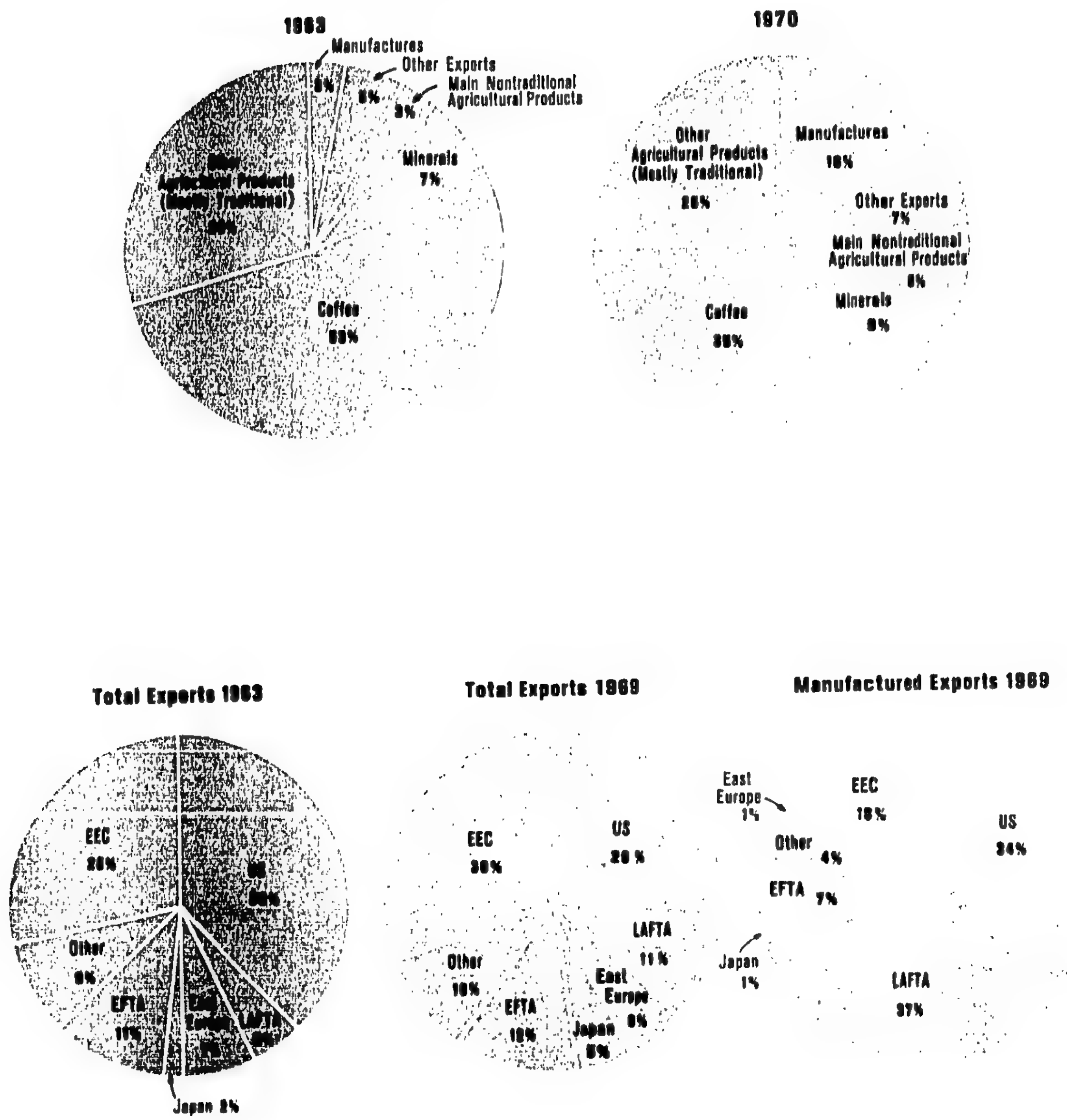
16. Like Mexico a decade or so earlier, Brazil has strengthened its export position by markedly diversifying agricultural sales. Although coffee is still by far the largest single export, its earnings in 1969-70 were equalled by the combined revenues from other agricultural products. Export growth for non-traditional commodities has been especially notable; sales of the five main items -- corn, beef, soybeans, wool, and rice -- reached about $222 million in 1970 compared with a pre-coup level of only $45 million. A broad price support program helped to create exportable surpluses of such products, which previously were produced almost solely for the domestic market. In addition, the government removed quantitative export restrictions on farm products. In taking these steps, the government abandoned earlier price and trade policies aimed at pleasing urban workers and providing cheap inputs for industry.

17. Exports of other agricultural commodities -- mainly traditional items such as cocoa, cotton, sugar, and castor oil -- also have done fairly well. Total exports of these items have increased by about 69%, to an estimated $685 million, since the coup. Exports of traditional commodities other than coffee have benefited from government measures to support prices, to make credit more widely available, to improve farming practices, and to make additional land available through coffee tree eradication and road improvements.

Changing Structure of Exports

18. Export diversification thus has proceeded very favorably since the military took over. Despite record coffee earnings in 1970, the crop's contribution to exports dropped to only 35% compared with 53% in 1963. The main gain has been in manufactured goods, which expanded from 3% to 16% of exports. Minerals also increased their share, from 7% to 9%. Although the growth in exports of traditional agricultural commodities other than coffee (from $406 million to some $685 million) was less rapid than total exports, the striking sales expansion of non-traditional agricultural products raised their share in the total (see Figure 4).

## BRAZIL: EXPORT DIVERSIFICATION




CONFIDENTIAL

19. Exports also have become more diversified geographically, reflecting reduced dependence on the US market. Although the United States remains Brazil's best customer by far, its share of Brazilian exports dropped from 38% in 1963 to 26% in 1969. Growing shares of exports went to Latin America, the European Economic Community (EEC) -- especially West Germany -- and Japan, which is an important buyer of iron ore. Argentina, Chile, Uruguay, Mexico, and other Latin American countries have become particularly important markets for manufactures, taking 37% of 1969 deliveries. But Brazil also is competing effectively in the United States in some manufacturing lines -- for example, cotton textiles, sheet steel, and certain types of machinery and parts. The US share of Brazilian exports of manufactured goods in 1969 was larger than for deliveries in general (see Figure 4).

Broad Economic Impact

20. Impressive export performance enabled Brazil to increase imports greatly and to register trade surpluses in five of the past seven years. With a gain of approximately 75% in 1964-70 (from $1.5 billion to $2.6 billion), imports showed the first pronounced upward trend since the early 1950s. Imports of capital equipment and industrial inputs grew even faster than other categories, to the benefit of the development effort. At the same time, Brazil established trade surpluses of perhaps $175 million in 1970 and at least $1.1 billion during the entire 1964-70 period. Current account deficits persisted -- except possibly in 1970 -- because of annual net factor payments (largely interest) of some $200-$300 million and other service outlays. Brazil's good economic record and business climate, however, helped keep capital inflows higher than current account deficits, and net reserves rose from $20 million in 1963 to $424 million in 1969 and probably climbed to nearly $1 billion in 1970.

21. Surging exports and imports unquestionably have been major factors in Brazil's broadly successful economic program since the military takeover. Production for export and growing import capacity helped considerably in raising the average economic growth rate to at least 7% (the official claim

is 9%) for 1968-70, Brazil's best record since 1960 and one of Latin America's highest rates. Increased imports of capital goods and industrial materials supported an expansion of output that helped in reducing the annual inflation rate from about 90% in 1964 to 20%-25% in recent years. Growing export orientation strengthened investment incentives and played a part in the gradually rising rate of capital formation. It also exerted pressure for greater productive efficiency and improved product quality. Both directly and indirectly, the export drive created jobs, broadened the domestic market, and improved the balance among economic sectors and regions. At the same time, export expansion -- and the economic recovery program generally -- required a temporary, small decline in Brazilian workers' real wages.

Prospects

22. Export prospects for the next several years are generally favorable, but Brazil can hardly expect to match the average yearly 10% gains of 1964-70. If the military retains power, as seems highly likely, policy probably will remain favorable to exports. But even under military-dominated governments, the hard-line wage policy of recent years probably will be relaxed and a growing share of resources channeled to popular welfare, partly at the expense of exports. Even with continued export-oriented policies, expansion of foreign exchange earnings faces several possible problems, including weakening commodity prices and foreign import restrictions on Brazilian manufactures.

23. The most promising field for export expansion in the early 1970s is minerals -- primarily iron ore but also including tin, manganese, and bauxite. CVRD and other companies have scheduled investments of about $500 million during 1969-73 in iron ore mining and pelletization, which will boost exports to an estimated 50 million tons, or more than double the 1970 level. Much of this ore has already been earmarked for Japan under long-term contracts. Private investments of some $50 million that are now in process should provide $40 million-$60 million in tin exports and approximately $10 million in bauxite exports by 1973-74.

Altogether, these efforts are expected to raise minerals exports from an estimated $248 million in 1970 to about $450 million in 1973 or 1974. If plans are fully realized, minerals probably will be the fastest growing export category in the early 1970s. Minerals exports will jump even more if the announced plans of the US Steel Corporation and the Brazilian government jointly to develop large iron ore deposits in the Amazon basin can be realized within the next several years.

24. In expanding exports of manufactures, Brazil almost certainly will be unable to sustain the estimated 24% annual growth rate of 1966-70, much less the average annual gains of 37% that have been piled on the small 1963 base. What can be accomplished depends on various factors, including (a) administration of the "crawling peg" exchange rate system, (b) protectionist trends abroad, including the LAFTA area, (c) the fate of proposed tariff preferences for less developed countries, (d) the climate for foreign investment in manufacturing, and (e) wage policy, easing of which could increase export prices and cut into export availabilities. To keep its manufactures competitive abroad, the government need not fully reflect domestic inflation in its mini-devaluations. But it will have to maintain the general policy of preventing its export prices from rising faster than prices in the developed countries.

25. In Brazil's view, the greatest threat to exports of manufactured goods is growing protectionism in the United States and other major markets. In the dispute over exports of soluble coffee, Washington and one element of the US coffee industry charge that Brazil's tax practices unfairly favor domestic processors, while Brazilian interests say this is just another effort to protect US business. Although exports of soluble coffee to the United States amounted to only $26 million last year, the issue has inflamed nationalist sentiment in Brazil and poses a possible threat to the ICA. Textile exports, which reached $9 million during the first quarter of 1970 (double the 1969 quarterly average), also have run into resistance because most of them are going to the US market. Although the United States and Brazil have

negotiated a "voluntary" quota agreement for cotton textiles, strong commercial pressures in the United States remain for mandatory limits on imports of other textiles and shoes.

26. In addition, Canada has moved to similarly restrict imports of Brazilian cotton yarn, and Brazilian beef exports to the United Kingdom may suffer from new restrictions. Brazilians also are worried that their rapidly growing exports to LAFTA countries may provoke protectionist reactions. Argentina, for example, expressed concern about its $35 million trade deficit with Brazil in 1969 and, in the tariff reductions associated with its 1970 currency devaluation, did not fully preserve preferences for LAFTA members. Despite Brazilian protests that this action violated the LAFTA treaty, Argentina has not yet modified it.

27. Prospects for expanding coffee export revenues encompass many complexities and uncertainties; on the whole, they do not seem favorable, although average revenues perhaps can be held near the 1970 level. World coffee demand probably will grow only slowly, if at all, over the next several years. Brazil thus can expect little increase in its exports within the ICA quota system. Its relatively small nonquota exports to Communist countries probably will increase, but not greatly. Moreover, Brazil may be tempted at times, as in the past, to ship less than its full ICA quota in an effort to shore up prices. Under Finance Minister Delfim Netto, the country has shown greater concern since 1967 about defending its market share. Brazilian officials still feel, however, that importers acquire too much power over prices if allowed to build up substantial stocks. Consequently, Brazil favors a cutback in ICA quotas to prevent such a buildup and to avoid a price war aimed at preserving its share of world exports.

28. Coffee price increases beyond the 1970 level seem unlikely, unless bad weather or blight substantially reduces output. At present, producing countries' stocks are ample, importers' inventories are relatively high, and prices are near the level where demand begins to suffer. Moreover, ICA quotas for the 1970/71 market year were set above world demand to put downward pressure on prices. At the same

time, other factors will help to keep prices higher than in the late 1960s -- at least for a year or two. For the 1970/71 coffee year, the ICA's price floor of 46 cents a pound (an average for the four major coffee types) is 30% above the average of the two preceding years. The present price floor -- having been accepted as reasonable by major importing countries -- seems unlikely to be lowered. The ICA's future role remains uncertain, however, because of the possible US withdrawal from the agreement if the dispute over soluble coffee is not settled. In avoiding precipitate price declines, Brazil has one other strong advantage: perhaps two-thirds of its prospective exports are covered by three-year contracts that it has won by offering price concessions.

29. Although exports of agricultural products other than coffee will depend partly on weather and world prices, prospects are for continuing substantial expansion. President Medici recently has reordered national priorities to give more attention and resources to agricultural development. The government already has initiated a National Plan for Integration (for opening the Amazon Region), established federal tax incentives for agricultural investment, and obtained the elimination of state taxes on fertilizer and farm machinery. Rising domestic demand, however, fed by a booming economy and possible increases in workers' purchasing power, could absorb much of the growth of output.

## Conclusions

30. Brazilian export performance since 1963 has been among the best in Latin America and is one of the government's most creditable economic achievements. Estimated earnings of $2.7 billion in 1970 were almost twice the 1963 level, and exports were much more diversified than ever before, in terms of products and markets. The most impressive gain was in sales of manufactured goods, which jumped from $49 million to an estimated $450 million. Expansion of iron mining brought another large gain, and high prices pushed coffee earnings to a record of about $950 million in 1970 even though Brazil's world market share was much lower than in the early 1960s. Exports of

other traditional agricultural commodities and of several nontraditional ones (such as corn, beef, and soybeans) also took large strides; collectively, they have recently matched coffee export earnings. Brazil now has the region's largest exports and, on a per capita basis, the second largest total earnings and exports of manufactures (after Venezuela and Argentina, respectively).

31. The successive post-coup governments set the stage for these gains by adopting a balanced policy aimed at financial stabilization with moderate economic growth and by taking specific steps to stimulate exports. Among the latter were increased public investment in transportation and storage facilities, expansion of state industrial enterprises with export potential, introduction of "crawling peg" exchange rates that regularly take account of inflation, and various fiscal and credit measures to stimulate private, export-oriented investment. This program paid off well, permitting substantially increased imports and contributing to a marked recovery in foreign exchange holdings. The export drive also played a part, directly or indirectly, in the acceleration of economic growth and slowing of inflation.

32. Under the military-dominated governments that seem likely to remain in power, Brazilian policy promises to remain broadly favorable to exports during the next several years. It is doubtful, however, that the 10% growth rate of 1964-70 can be equaled (or even closely approached) and a comparable impetus given to the economy's further progress. Exports of minerals and of agricultural products other than coffee should continue to do well. But coffee exports remain highly vulnerable, and recent experience suggests that Brazil cannot both exert significant upward pressure on prices and preserve its world market share. Average coffee export values in the early 1970s probably will not appreciably exceed the 1970 level and could fall below it. Although substantial investments seem likely in export-oriented manufacturing plants, exports of manufactured goods can scarcely be expected to maintain the high rate of recent years even if threatened protectionist measures

are not very damaging. If the government relaxes its wage restraint policy, export growth for manufactures and agricultural products other than coffee could be slowed by rising prices and diversion of supplies to the domestic market.

APPENDIX

Brazil: Composition of Manufactured Exports

| | Million US $ | |
|---|---|---|
| | 1968 | 1969 |
| Processed forest products | 16.2 | 30.8 |
| Of which: | | |
| Wood veneer sheets | 7.4 | 16.6 |
| Celotex and other artificial wood | 3.0 | 3.2 |
| Chemical wood pulp | 1.4 | 3.2 |
| Foodstuffs and beverages | 52.4 | 68.6 |
| Of which: | | |
| Processed beef | 12.6 | 12.8 |
| Soluble coffee | 22.8 | 32.8 |
| Fruit juice | 11.8 | 11.1 |
| Flours and starches | 1.5 | 3.1 |
| Chemicals and pharmaceuticals | 26.4 | 30.6 |
| Of which: | | |
| Menthol | 10.5 | 10.1 |
| Peppermint oil | 3.0 | 3.4 |
| Essential oils | 3.0 | 4.1 |
| Machinery and vehicles | 41.1 | 60.3 |
| Of which: | | |
| Electrical machinery and apparatus | 6.0 | 8.9 |
| Punching and tabulating machines | 7.6 | 9.3 |
| Typewriters | 3.2 | 6.2 |
| Machine tools and metalworking machines | 2.4 | 3.1 |
| Sewing machines | 2.0 | 3.1 |
| Earthmoving and construction equipment | 2.4 | 4.4 |

| | Million US $ | |
|---|---|---|
| | 1968 | 1969 |
| Other manufactures | 64.9 | 93.0 |
| Of which: | | |
| Common cotton fabrics | 1.8 | 4.2 |
| Iron and steel bars | 7.8 | 9.7 |
| Iron and steel plates | 6.3 | 5.9 |
| Bulbs for electric lamps | 5.8 | 5.9 |
| Jute textiles | 7.2 | 5.5 |
| Steel plates and sheets, coated | 7.0 | 13.6 |
| *Total* | *201.0* | *283.3* |